Saskatchewan
Finance

Annual Report
2005

Municipal Employees' Pension Commission

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This annual report is available in electronic format at **www.peba.gov.sk.ca/mepphome.htm**.

Letter of Transmittal

Saskatchewan
Finance

Her Honour, The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor of the Province of Saskatchewan
Government House
4607 Dewdney Avenue
Regina, Saskatchewan

Dear Madam:

I have the honour to transmit herewith the 64th Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2005.

I have the honour to be, Madam,

Your obedient servant,

Andrew Thomson
Minister in Charge
Municipal Employees' Pension Commission

Letter of Transmittal

Municipal Employees' Pension Plan

The Honourable Andrew Thomson
Minister in Charge
Municipal Employees' Pension Commission
Regina, Saskatchewan

Sir:

On behalf of the Municipal Employees' Pension Commission, I have the honour to present herewith the 64th Annual Report of the Municipal Employees' Pension Commission for the year ending December 31, 2005.

Respectfully submitted,

Jim Reiter
Chair

Chair's Comments

It is my privilege to chair the Municipal Employees' Pension Commission as it pursues its mandate to oversee and direct the administration of the Plan and manage the assets in the best interests of its members. The Commission has taken many steps to achieve its goals over the past few years and 2005 was a year of positive change for the Plan.

In fulfilling its mandate, the Commission has developed a multi-year strategic plan that identifies initiatives and activities for effective communications, plan governance, risk management, service delivery and plan design. This annual report provides greater detail about these initiatives and activities than past annual reports. The changes reflect an increased emphasis on accountability.

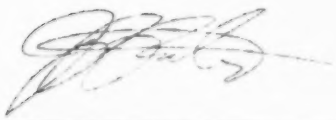
The Commission is committed to facilitating effective communications for Plan members and employers. In 2005 Mercer Human Resource Consulting was hired to analyze and evaluate the Plan's communication methods and materials. Based on Mercer's findings, the Commission will develop and adopt a comprehensive communications plan in 2006.

The Commission has progressed in its Plan governance activities by strengthening its orientation, skills and knowledge development, improving measurement and reporting, and by providing policy guidance to agents and advisors. The Commission will continue developing its governance processes.

The Commission conducts an annual risk assessment to identify, evaluate and manage potential risks that could affect the Plan's operation. In the past year the Commission developed a risk management plan for 2006.

The early retirement window closed on December 31, 2005. In response to member inquiries regarding future similar initiatives, the Commission is developing a strategy to ensure that plan design and service delivery meet the needs of members and employers over the coming years as workforce demographics change.

On behalf of the Municipal Employees' Pension Commission, I present the 2005 Annual Report of the Municipal Employees' Pension Commission.



Jim Reiter
Commission Chair

Introduction

The Municipal Employees' Pension Plan (MEPP) provides a monthly pension at retirement based on a member's three highest years average salary and the amount of pensionable service credited under the Plan. For those who do not retire under the Plan, there are termination, death and disability benefits.

The MEPP was created in 1973; however, MEPP's history extends back to the 1940s. First, the *Rural Municipal Secretary Treasurer's Superannuation Plan* was established in 1941, then in 1949 the *Urban Employees' Superannuation Plan* was established. In 1959 these two plans were amalgamated to form the *Municipal Employees' Superannuation Plan*, which was converted to the current defined benefit pension plan in 1973.

The Municipal Employees' Pension Commission (the Commission) administers the MEPP. The Commission consists of 10 members. The full term of office for Commission members is four years and a member may be appointed for two full terms. Each year the Commission members elect a Chairperson and a Vice-Chairperson. At December 31, 2005 the Commission was comprised of the members listed in *Table 1.1*.

The Commission is ultimately responsible for the Plan's administration, communication and investment activities. To discharge these responsibilities, the Commission uses the services of various organizations.

The Commission's mission is:

To oversee and direct the administration of the Plan and manage the assets in the best interests of the members.

The Commission's goals are:

To educate and inform plan members, beneficiaries, employers and the plan sponsor through clear, timely and relevant communication of their benefits, duties and obligations under the plan in a responsive and proactive way.

To make timely decisions in an open and consultative manner, which adheres to procedural fairness and natural justice, to ensure fair and equitable treatment for the best interest of plan members.

To ensure the short-term and long-term solvency of the plan and to develop prudent investment policies which balance rate of return and risk.

To be cost effective and efficient.

To ensure an equitable plan design that reflects the diversity of the membership and takes into account pension industry standards, trends and the Saskatchewan environment.

To ensure accountability when carrying out its governance responsibilities, which is in keeping with best practices standards, its fiduciary responsibilities and statutory requirements, the Commission will obtain advice from pension industry experts to meet its fiduciary responsibilities and educational needs, and conduct a periodic self-assessment of the governance framework.

Municipal Employees' Pension Commission Members at December 31, 2005

Name	Position	Appointed By
Jim Reiter	Chair	The Rural Municipal Administrators Association of Saskatchewan
Charles Baillargeon	Vice-Chair	The Saskatchewan School Boards Association
Keith Schneider	Member	The Saskatchewan Urban Municipalities Association
Earl Braun	Member	Designated Police Officers and Firefighters
David Marit	Member	The Saskatchewan Association of Rural Municipalities
Carrie McCoshen	Member	Trade Unions
Allan Johnson	Member	Saskatchewan Regional Colleges and Regional Libraries
Bonnie Ozirny	Member	The Saskatchewan School Boards Association
Orrin Redden	Member	The Urban Municipal Administrators Association of Saskatchewan
Ronald Walter	Member	Saskatchewan Association of School Business Officials

Also serving in 2005: Barry Hayden, Claire Melhoff and Brian Sych*

* The terms of these Commission members ended August 31, 2005.

Table 1.1

Strategic Initiatives

The Commission has adopted a multi-year Strategic Plan that outlines the Commission's strategic initiatives through 2007.

The strategic plan sets out initiatives and activities for the planning period within five categories:

- Effective communications
- Plan governance
- Risk management
- Service delivery
- Plan design

Effective Communications

The Commission is aware of the importance of communicating effectively with plan members and employers. The Commission is mindful, as well, of the need to solicit member feedback and two-way communications with stakeholders.

Improving the Plan's communications involves:

- Developing a communications plan that addresses the needs of Plan members;
- Assessing and refining the many tools now used to deliver information to members and stakeholders; and
- Developing and implementing a plan to manage the risks inherent in communicating plan information.

Effective Communications Activities 2005

MEPP constructed a demographic profile for the current group of members eligible for immediate retirement by identifying all members eligible to participate in the early retirement window.

MEPP provided information to members eligible to participate in the retirement window.

- In April and May 2005, MEPP sent letters outlining benefits payable to the almost 1,400 eligible members.
- MEPP provided these reminders regarding the retirement window:
  - Printed the retirement window criteria and closing date in the member booklets published and distributed to all members in 2005.
  - Conveyed the criteria and closing date to members in member presentations and at trade shows.
  - Included a reminder in the spring issue of *MEPP Matters* mailed to employers and members on June 17, 2005.

During 2005 MEPP identified these as communication resources to employers:

- Employer manual
- Employer bulletins
- Forms
- Employer-specific information (Pension Adjustment Guides and Tables)
- Member booklets
- *MEPP Matters* newsletters
- Notices of upcoming events (member presentations)
- Ad hoc letters sent on specific issues

To directly assist employers during 2005, MEPP:

- Made publications, forms and pension adjustment information available on the Public Employees Benefits Agency (PEBA) website or in printed form if requested, by telephone.
- Mailed *MEPP Matters* newsletters directly to employers to assist them if they received employee questions about newsletter content.
- Sent letters to employers on issues such as maximum pensionable salary, member presentations and MEPP's proposed project to enable electronic submission of employee remittance data.

Strategic Initiatives

The Commission determined a mandate for a communications consultant. At its April 15, 2005 meeting the Commission approved the mandate for a communications consultant to:

- Develop a strategic communications plan;
- Develop an implementation schedule for the strategic communications plan;
- Monitor the communications planning process;
- Report to the Commission; and
- Assist the Commission in developing a strategy for consulting with stakeholders regarding plan design pressures and opportunities.

A tender for the communications consultant was issued in April 2005 with a July 2005 closing date. Mercer Human Resource Consulting (Mercer) was selected by the Commission at the September 15, 2005 Commission meeting from a shortlist of three vendors.

Mercer began gathering and assessing information and data that included:

- Current methods and tools used for communications;
- Consultation with stakeholders; and
- Interest in other tools and best practices.

In October 2005 Mercer began developing information to guide the 2006 communication plan, including:

- Directed research;
- Nine focus testing groups;
- A Commission focus test;
- Interviews with senior management; and
- A pension industry scan.

Effective Communications Initiatives 2006

Mercer will provide a summary of information gathered, findings on service delivery and an assessment of member needs for processes and education methods.

With Mercer's assistance, the Commission will develop and adopt a comprehensive three-year communication plan that will address gaps in existing communications and identify the resources required to implement the plan.

The three-year communications plan will include:

- A strategy for consulting with members and stakeholders;
- Tactics for effectively meeting member information and education needs; and
- Ongoing measurement and evaluation.

Seminars, Courses and Other Events Attended by Commission Members in 2005

Commission Member	Education Events Attended	Registration Fees
Earl Braun*	– Annual Pension Information Session (PEBA) – Basic Investment Principles (James P. Marshall) – Basic Trustee Development Program (Humber College)	$1,000
Allan Johnson*	– Annual Pension Information Session (PEBA) – Basic Investment Principles (James P. Marshall) – Basic Trustee Development Program (Humber College) – Commuted Value and Elimination of Mandatory Retirement (CPBI[1])	$1,040
David Marit	– Annual Spring Seminar (CPBI) – Western Regional Conference (CPBI)	$1,375
Carrie McCoshen	– Annual Pension Information Session (PEBA) – Training for Pension Trustees and Pension Advisory Committee Members (CUPE[2])	$950
Bonnie Ozirny	– Annual Pension Information Session (PEBA) – Capital Accumulation Plan Guidelines (CPBI) – Commuted Value and Elimination of Mandatory Retirement (CPBI) – Western Regional Conference (CPBI)	$1,430
Orrin Redden*	– Basic Investment Principles (James P. Marshall) – Basic Trustee Development Program (Humber College)	$1,000
Jim Reiter	– Annual Pension Information Session (PEBA) – Annual Spring Seminar (CPBI) – Basic Investment Principles (James P. Marshall) – Capital Accumulation Plan Guidelines (CPBI) – Commuted Value and Elimination of Mandatory Retirement (CPBI) – Western Regional Conference (CPBI) – Barclays Seminar	$1,455
Keith Schneider	– Annual Pension Information Session (PEBA) – Basic Investment Principles (James P. Marshall) – Capital Accumulation Plan Guidelines (CPBI) – Commuted Value and Elimination of Mandatory Retirement (CPBI) – 2005 Pension Summit: New Thinking New Strategies (Conference Board of Canada)	$1,755
Ron Walter	– Annual Pension Information Session (PEBA) – Pension Investment Management School (Mercer Investment Consulting, Frank Russell Canada and the Schulich School of Business, York University)	$2,700

[1] Canadian Pension and Benefits Institute

[2] Canadian Union of Public Employees

*Appointment to Commission commenced September 1, 2005

Table 1.2

This table is referenced under Plan Governance on page 9.

Strategic Initiatives

Plan Governance

In the Commission's Strategic Business Plan, three main areas were identified for the Commission to direct its efforts in Plan governance. The Commission made progress in each of these areas in 2005:

- Strengthening the Commission's governance by improving orientation and by developing skills and knowledge;
- Reinforcing the Commission's oversight role by improving measurement and reporting; and
- Providing policy guidance to agents and advisors.

Commission members attended various seminars, courses and other events throughout 2005 in order to develop their skills and knowledge. The three new members appointed to the Commission in 2005 completed orientation programs and started their education programs. See *Table 1.2* on page 8 for an outline of the education events attended by Commission members.

The Commission reviewed its reporting structure and performance measures. Generally, the review found sufficient reporting processes and contractually established performance measures in place for all its service providers. The Commission is examining criteria for an independent evaluation of its administration service provider, PEBA.

In 2005, the Commission approved several policies related to MEPP's operation. Most notably these policies were for determining commuted value, using the valuation basis for optional forms of pension and pensionable service.

Overall, the Commission has invested considerable time and effort in recent years developing its governance practices and policies. Progress was made in the past year, as the Commission put in place a self-assessment process that enables Commission members to:

- Conduct periodic reviews of the governance and operation of the MEPP; and
- Take the actions required to ensure the effectiveness of the process.

The Commission has in place its governance manual, with a code of conduct and conflict of interest procedures. Work is underway to complete the accompanying policies.

The Commission completed a self-assessment in accordance with the *Canadian Association of Pension Supervisory Authorities (CAPSA) Pension Plan Governance Guidelines* for the year ending December 31, 2005. The Commission recognizes steps must be taken to address access to information and communicating its mission and goals to Plan members.

To ensure it has access to information, the Commission compiled a list of reports it received and which were received on its behalf. Analysis will determine if further information would assist the Commission in carrying out its duties.

The Commission will develop rules and procedures for receiving, reviewing and acting on information and reports.

The mission statement was published in the Fall 2005 issue of *MEPP Matters*. The mission is stated in the Plan's annual reports, Statement of Investment Policies and Procedures, and is posted on the MEPP home page of the PEBA website.

The Commission will continue communicating the mission statement to members.

Strategic Initiatives

Plan Governance Activities 2005

The Commission developed policies for:

- Commuted value;
- Valuation basis for optional forms of pension;
- Pensionable service; and
- Stakeholder relations and external communications.

Plan governance activities included:

- Annual assessment of the Plan governance program;
- Approval of the triennial valuation of the Plan by the Plan's actuary;
- Renewal of contract with PEBA for a three-year term;
- Review of Commission's reporting structure and performance measures; and
- Provision of Commission members with opportunities for education pertinent to pension plan administration.

Governance Initiatives 2006

In 2006, the Commission will focus on three governance priorities:

- Continued development of policies, including a funding policy and administrative policies;
- Arrange an independent review of the adequacy and completeness of information reported to the Commission; and
- Review and update the Commission's strategic business plan.

Risk Management

Through its risk management process, the Commission identifies and evaluates risks that could affect the operation of the Plan. The process, conducted annually, ensures appropriate strategies are in place to manage risks.

As part of an ongoing risk management strategy, the Commission:

- Takes part in Commission member education;
- Conducts cyclic review of operational activities and an annual review of the governance checklist;
- Conducts member appeals through a formal complaints review and resolution process;
- Conducts an annual survey of costs incurred by similar pension plans;
- Uses the services of an auditor to conduct an annual financial statement audit of the Plan. The Provincial Auditor for Saskatchewan relies on the Plan's auditor to assist them to discharge their statutory reporting responsibilities to the Legislative Assembly of Saskatchewan;
- Retains legal counsel; and
- Conducts periodic formal review of plan design.

The Commission has identified the following potential risks to the Plan:

- Insufficient assets to meet benefit obligations;
- Service provider failures;
- Non-compliance with legislative and common-law requirements;
- Excessive expenses;
- Failure to meet the needs of Plan members and participating employers; and
- Communications that are incorrect, untimely or inconsistent.

Strategic Initiatives

The Commission has these strategies for managing the risks identified:

- The Commission undertakes triennial actuarial valuations of the Plan's funded status and contribution requirements. The Commission received the actuarial valuation of the Plan as at December 31, 2004, which reported that the Plan was fully funded and had no solvency deficiency. The actuary did indicate that total contributions to the Plan are less than the current service cost.
- To offset the potential for investment risk and service provider failure, the Commission develops and implements the Plan's investment strategy in its annual Statement of Investment Policies and Procedures (SIP&P). The SIP&P includes provision for compliance reporting and independent monitoring. In 2005 the Commission received quarterly reports regarding investment manager compliance with the investment policies set out in the SIP&P and investment performance.
- The Commission conducts regular governance self-assessment designed to assist Commission members in assessing their oversight of the Plan. Reporting the self-assessment results provides accountability to interested stakeholders and follows the recommendations in the CAPSA *Pension Plan Governance Guidelines* for industry best practices.
- In November 2005, the Commission performed and approved its governance self-assessment for the year ending December 31, 2005.
- To address risk associated with excessive costs, the Commission practices fiscally responsible service provider management such as tendering, contract negotiations and performance management. In 2005, the Commission began reviewing the implications of re-employment after retirement to the Plan's financial integrity.
- The Commission understands that the Plan must meet the needs of its members and participating employers. The Commission decided to offer eligible members a temporary monthly pension option on amounts over the maximum transfer amount. Temporary pensions include all existing pension options.
- In September 2005, the Commission hired Mercer Human Resource Consulting as its communications consultant. Mercer has been gathering and assessing data for development of a comprehensive three-year communications plan.

Risk Management Activities 2005

As part of an annual risk assessment, the Commission's 2005 review identified major categories of risk and adopted strategies to manage those risks. Many of the risk-management strategies adopted by the Commission are ongoing and are outlined on the preceding page. In 2005, the Commission:

- Reviewed the risk management performance for the previous year and the progress made with respect to annual goals;
- Identified and assessed the impact and probability of key plan risks;
- Established risk management strategies; and
- Identified any specific goals for the year.

The Commission started development of a comprehensive manual of policies to be followed in administering the Plan. This included approving a listing of policies for development.

Because the policy manual is comprehensive and will take more than one year to develop, a number of policies received priority in 2005.

- The Commission completed and approved commuted value and pensionable service policies and drafted policies for highest average salary and annualized salary.
- In November 2005, the Commission approved and adopted a policy on external communications.
- With the assistance of Mercer, the Commission undertook development of a communications strategy that will be completed and implemented by December 2006.

Risk Management Initiatives 2006

To enhance its risk management strategy, the Commission will develop and implement risk management initiatives that include:

- A funding policy for the Plan;
- A business continuance plan from PEBA;
- A plan to address gaps in the Commission's risk management strategy including any uncompleted items from the 2005 risk management strategy;
- An actuarial valuation of the Plan as at December 31, 2005 to monitor current service costs; and
- A formal review of the MEPP Business Plan.

Service Delivery

Service delivery is challenging given the nature of the pension plan and the variety and geographic distribution of members and employers within the plan. The Commission reviews its service delivery practices and implements changes wherever it deems them necessary or worthwhile.

The focus of the Commission's service delivery review is on:

- Identification of member and employer needs and preferences;
- Determination of best practices within the industry; and
- Cost/benefit analyses of possible alternative delivery options.

Current practices and implemented changes are monitored to ensure their effectiveness.

Service Delivery Activities 2005

The Commission set out to conduct communications with plan members and employers (e.g., surveys, focus groups) to determine needs and preferences.

To effect this, the Commission selected Mercer Human Resource Consulting as its communications consultant in September, 2005. Part of the mandate of the consultant is to analyze members' needs regarding administrative processes and methods of education for their retirement planning.

Since its appointment as communications consultant, Mercer has been engaged in carrying through with the phased activities of its mandate. Mercer's mandate has five phases – initiation, discovery, creation, implementation, and assessment.

Service Delivery Initiatives 2006

Prepare and review the report on member and employer needs.

Develop measurements for assessing service delivery performance and reporting processes.

Determine the overall delivery strategy for the plan, with consideration of:

- Alternatives to current practices
- Best industry practices
- Cost/benefit of alternatives
- Change management issues

Plan Design

MEPP is a key element in the overall financial security of its members. Changes within the workforce over the coming years will create challenges to which the Plan must respond in meaningful ways. The Commission is committed to ensuring that Plan design meets the needs of members and employers.

As part of the Commission's Strategic Plan, the Commission will focus on:

- Reviewing, assessing and defining the role the Commission plays in plan design; and
- Developing and executing a strategy to determine member and employer needs and preferences and to identify design responses to those needs.

Plan Design Activities 2005

In 2005, with the assistance of Mercer, the Commission began gathering information to speak to plan design.

In response to member requests, the Plan legislation was amended in 2005 to allow payment of temporary pensions to eligible members who remove the value of their pension benefits from the Plan.

These members may now transfer the maximum amount to a retirement income vehicle on a tax-deferred basis *and* receive a temporary pension from the Plan using the amount over the tax-deferred amount. *For details, see the Plan member booklets.*

Plan Design Initiatives 2006

In 2006, the Commission will develop a plan to conduct stakeholder consultations regarding Plan design.

Investments

Overview

As trustees of the Municipal Employees' Pension Fund, the Commission is responsible for safeguarding and investing the Fund's monies.

Income Allocation

For the year 2005, the Commission allocated interest to members' accounts at the rate of **10.73%** per annum.

Custodian

The Commission retains RBC Dexia Investor Services as the Plan's custodian. The custodian is responsible for safekeeping of assets, income collection, settlement of investment transactions, and accounting for investment transactions. RBC Dexia Investor Services was paid $131,190 in 2005.

Investment Consultant

James P. Marshall, Inc., a Hewitt Company, has been retained as the Plan's investment consultant. The investment consultant monitors the activities of the investment managers and reports the results to the Commission. James P. Marshall, Inc. was paid $83,950 in 2005.

As of December 31, 2005, the investment managers invested the portions of the portfolio shown in *Figure 1.1*.

Asset Mix by Manager

Snyder Capital Management L.P. 3.9%
Lincluden Management Ltd. 9.5%
Greystone Managed Investments Inc. 48.0%
Barclays Global Investors Canada Ltd. 17.6%
Brandes Investment Partners, LP 9.5%
Foyston Gordon & Payne Inc. 11.5%

Figure 1.1

Investment Policy

In fulfilling its responsibility to safeguard and invest the Fund monies, the Commission has adopted an investment policy for the Plan. This policy is set out in the Statement of Investment Policies and Procedures (SIP&P). The SIP&P, available at www.peba.gov.sk.ca/mepphome.ca, assists the Commission in carrying out its duties as they pertain to the investment of Plan assets.

The Commission reviews the SIP&P annually. This investment policy contains guidelines that pertain to the investment of Plan assets, and includes:

- Investment and risk philosophy
- Asset mix and diversification policy
- Rate of return benchmarks for each investment manager and for the Fund
- Permitted and prohibited investments
- Monitoring and control responsibilities
- Selecting and terminating investment managers
- Conflict of interest guidelines

Investment of Funds

The Commission delegates responsibility for investing the Plan assets to professional investment managers. Each manager invests within a specific mandate. *Table 1.3* shows the investment managers and their mandates. Investment managers were paid a total of $2,707,848 in 2005.

Investment Manager Mandates

Investment Manager	Mandate
Greystone Managed Investments Inc.	Balanced
Foyston, Gordon & Payne Inc.	Canadian Equities
Brandes Investment Partners, LP	Non-North American Equities
Barclays Global Investors Canada Ltd.	Foreign Equities, Canadian Bonds
Snyder Capital Management, LP	Foreign Equities
Lincluden Management Ltd.	Canadian Bonds

Table 1.3

Total Fund

The long term goal of the total Fund is to achieve a minimum annual rate of return of 3.5% above inflation, as measured by the Consumer Price Index. This goal is monitored and assessed over the long term (10 years or more).

To achieve this goal the Commission has established a long-term strategic asset mix that is reflected by the Plan's benchmark. The Commission established an investment management structure consisting of one or more investment managers in each major asset class.

The Commission delegates day-to-day responsibilities for managing assets to the Plan's investment managers. Subject to the Plan's SIP&P, the managers may hold, buy or sell investments to achieve performance objectives set by the Commission for their mandates.

Fund investment returns are primarily assessed over rolling four-year periods but are measured over multiple time periods. The primary objective for the Fund is to exceed the return of the benchmark portfolio, net of investment management fees.

The Fund structure includes a balanced manager and specialist managers across the various asset classes. The primary objective for the balanced manager is to earn a return, net of investment management fees, that exceeds the manager's benchmark portfolio return. A secondary objective is to earn returns above the benchmark index in each asset class.

For specialist managers, returns are regularly tested against the relevant asset class benchmarks. Other considerations in assessing manager performance are whether the mandate is actively or passively managed and returns relative to a peer group of managers.

Figure 1.2 shows the benchmark asset mix by asset class. This is the asset mix managed by the various investment managers.

Benchmark Asset Mix

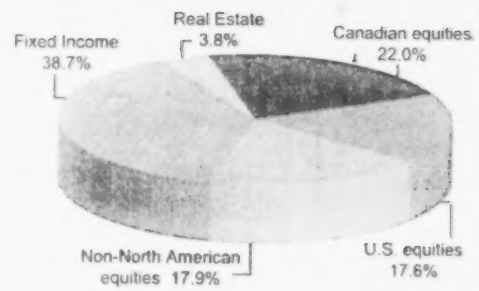


Figure 1.2

Table 1.4 shows the Plan's minimum, benchmark and maximum investments by asset class for each class market index.

Plan Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	15.0%	**21.0%**	30.0%
US Large Cap Equities	S&P 500 and S&P 500 Hedged	10.0%	**14.0%**	18.0%
US Small/Mid Cap Equities	Russell 2500	2.0%	**4.0%**	6.0%
Non-North American Equities	MSCI EAFE	14.0%	**18.0%**	22.0%
Canadian Bonds	SC Universe Bonds	24.0%	**38.0%**	56.0%
Real Estate	Investment Property Databank	0.0%	**3.0%**	5.0%
Short-term Investments	91 Day T-Bills	0.0%	**2.0%**	20.0%
			100.0%	

Table 1.4

Fund Performance

The Commission reviews the performance of the MEPP Fund in terms of the performance of a benchmark portfolio over rolling four-year periods. The performance of individual investment managers is measured against the objectives set for their individual portfolios.

The Fund's investment performance as at December 31, 2005 is summarized in *Figure 1.3*. The Fund had a return of 12.1% for the year ended December 31, 2005, outperforming the benchmark by 1.5%. Over the past four years, the Fund had an annualized return of 8.9%, exceeding the benchmark by 2.0%.

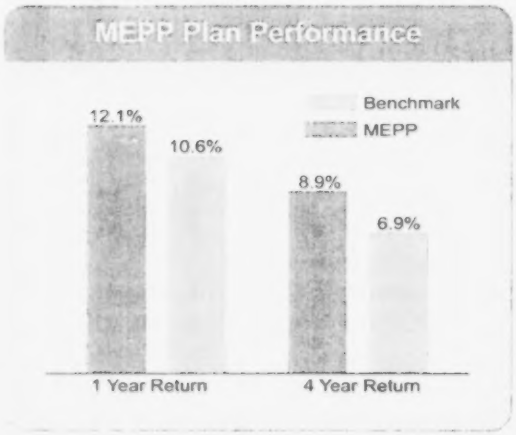


Figure 1.3

Balanced Manager

The balanced mandate, actively managed by Greystone Managed Investments Inc. (Greystone), is compared to a blended benchmark as shown in *Table 1.5* . This table shows the balanced mandate benchmark indexes by asset class. Greystone's performance for each asset class it manages is included in the asset class analysis.

The balanced mandate provided a return of 13.7% in the year ended December 31, 2005, outperforming the benchmark by 3.0%. Over four years the balanced mandate provided an annualized return of 7.7%, outperforming the benchmark by 1.4%. (*Figure 1.4*)

Figure 1.4

Balanced Mandate Benchmarks by Asset Class

Asset Class	Class Market Index	Minimum Investment	Benchmark Investment	Maximum Investment
Canadian Equities	S&P/TSX CPMS Cap 10	16.0%	**23.0%**	34.0%
US Equities	S&P 500	5.0%	**8.0%**	12.0%
Non-North American Equities	MSCI EAFE	13.0%	**17.0%**	20.0%
Real Estate	Investment Property Databank	0.0%	**6.0%**	12.0%
Canadian Bonds	SC Universe Bonds	23.0%	**42.0%**	65.0%
Short-term Investments	91 Day T-Bills	0.0%	**4.0%**	35.0%
			100.0%	

Table 1.5

Canadian Equity Managers

The Plan's Canadian equity managers include Greystone and Foyston Gordon & Payne Inc. (Foyston). Both are active managers and are measured against the S&P/TSX CPMS Cap 10 - as is shown in *Figure 1.5*.

In the year ended December 31, 2005, Greystone's Canadian equity component returned 28.0%, outperforming the benchmark by 3.9%. Over four years, Greystone outperformed the benchmark by 2.5% with an annualized return of 14.6%.

In the year ended December 31, 2005, Foyston returned 27.3%, outperforming the benchmark by 3.2%. Foyston's four-year annualized return of 19.2% outperformed the benchmark by 7.1%.

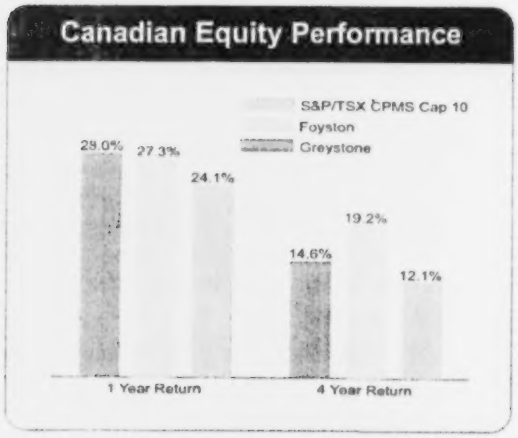


Figure 1.5

US Equity Managers

The Plan's US equity managers include Greystone, Barclays Global Investors Canada Ltd. (Barclays) and Snyder Capital Management LP. (Snyder). Each, managed with an individual mandate, uses a particular benchmark (*Table 1.3*).

Actively managing US large cap equities, Greystone returned 5.8% in the year ended December 31, 2005. This is an outperformance of 3.5% compared with the benchmark S&P 500.

Figure 1.6 shows that, with a -1.3% four-year annualized return, Greystone outperformed this benchmark by 2.6%.

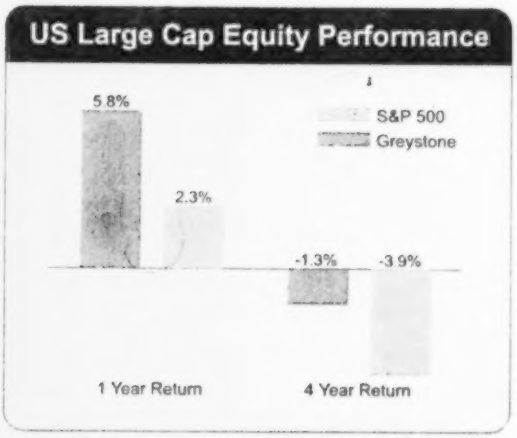


Figure 1.6

Snyder was new to the Plan in 2005. One-year and four-year performance figures are not available for Snyder, which actively manages the small and mid-cap US equity portfolios.

Snyder provided a return of 3.7% for the quarter ended December 31, 2005. This is a performance of 1.2% above the Russell 2500 - this manager's benchmark index.

US Large Cap (Hedged) Manager

Barclays manages passive, hedged, U.S. equity investments and is measured against the hedged S&P 500 Index.

Barclays matched the benchmark at 4.0% for the year ended December 31, 2005. Over four years, Barclays provided an annualized return of 4.0%, which is an underperformance of 0.3% when compared with the benchmark. *(Figure 1.7)*

Figure 1.7

Non-North American Managers

The Plan's Non-North American investment managers include Greystone and Brandes Investment Partners, LP (Brandes). Their performance is measured against the MSCI EAFE.

Greystone returned 12.9% in the year ended December 31, 2005, which outperformed the benchmark by 2.2%. Over four years Greystone provided a 2.1% return that was 1.8% lower than the benchmark for the same period.

Brandes provided a 9.0% return for the year ended December 31, 2005 that was 1.7% below the benchmark. The four-year annualized return of 8.3% was 4.4% over the four-year benchmark. *(Figure 1.8)*

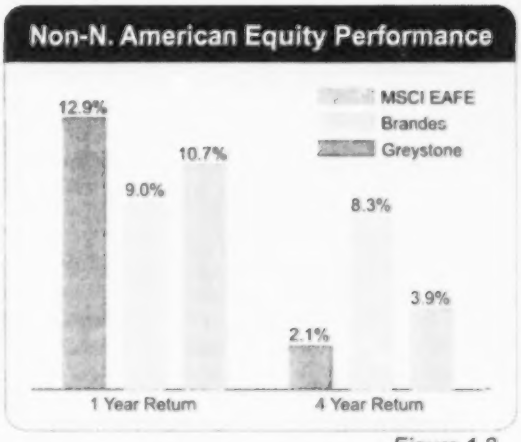


Figure 1.8

Bond Managers

The Plan's bond managers, Greystone, Lincluden Management Ltd. (Lincluden), and Barclays, are compared with the Scotia Capital Universe Bond Index (SC Universe) as shown in *Figure 1.9* on the following page.

For the year ended December 31, 2005, Greystone outperformed this benchmark by 0.6%, providing a return of 7.1%. Greystone's four-year annualized return of 7.7% was 0.4% above the benchmark.

Lincluden provided a one-year return of 4.5%, effective December 31, 2005. This return was 2.0% below the benchmark. Lincluden's four-year annualized return of 7.3% matched the benchmark.

Barclays, the Plan's passive bond manager, matched the benchmark with a return of 6.5% for the year ended December 31, 2005. Barclay's four-year annualized return of 7.2% was 0.1% below the benchmark.

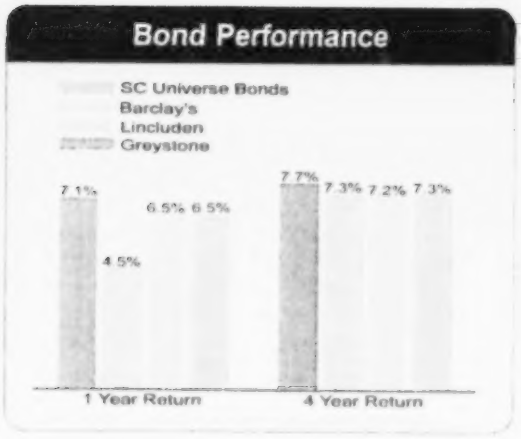


Figure 1.9

Real Estate Manager

Greystone is the manager for the real estate portfolio. Real estate provided a return of 24.0% for the year ended December 31, 2005. This return outperformed the estimated Investment Property Databank benchmark by 13.0%. Greystone's four-year, annualized return was 15.7%, which is 5.5% above the estimated benchmark return for the same period. (*Figure 1.10*)

Figure 1.10

Cash Flow Forecast – Provision for Annuity Benefits

The cash outflows are the amounts required to pay all annuity obligations. Cash flow forecasts have been determined using the long term assumptions contained in *Table 1.6*.

Long Term Assumptions

Factor	Current Year Assumptions	Prior Year Assumptions
Interest Rate	6.00%	6.00%
Indexation of Pensions	2.50%	3.00%

Table 1.6

The actuarial valuations prepared by Eckler Partners Ltd. also take into consideration mortality under the Plan, which is reflected in the cash flow forecasts. For the current valuation, the mortality tables have been updated and reflect the most recent mortality studies (Mortality Table UP94 projected to 2015).

Cash Flow Forecasts

Year	Cash Outflows (000's)
2006	$4,228
2007	4,071
2008	3,900
2009	3,713
2010	3,527
Total next 5 years	$19,439
Total 5 - 10 years	$14,667
Total 11 - 30 years	$19,944

Table 1.7

Plan Administration

Service Delivery

The Commission contracted with PEBA to provide administrative services to the Plan.

Under contract with the Commission, PEBA:

- Provides pension estimates, estimates on breakdown of spousal relationship and transfer values for members wishing to transfer into MEPP from another pension plan;
- Prepares annual member statements by the end of March of each year;
- Calculates termination and death benefits;
- Prepares statements to members regarding significant Plan events such as termination, death and breakdown of spousal relationship;
- Accounts for all investment transactions; and
- Collects members' and employers' contributions.

The contract with PEBA establishes service standards for the tasks performed by PEBA for the Commission. Eight service standards are tracked including termination option letters, pension estimates and payments.

PEBA is responsible for ensuring that all transactions are done in accordance with *The Municipal Employees' Pension Act*.

In 2005, the Commission paid $2,244,625 for administrative services.

Service Standard Activities 2005

In 2005, PEBA met or exceeded the service standards on 89 per cent of the tasks performed.

Service Standard Initiatives 2006

In 2006, PEBA will develop an electronic web-based system for employers to use when submitting employee remittance data. This will provide for more timely posting of contributions for employers who use the automated feature.

Plan Expenditures and Statistics

Pension Payments

In 2005, MEPP made monthly pension payments to about 3,800 pensioners. MEPP paid approximately $35 million to pensioners in 2005.

PEBA's objective is to ensure that all payments are made by their due dates and that all supplemental increases for pensioners are processed on a timely basis. PEBA met these objectives in 2005.

Supplemental Increases for Pensioners

Effective January 2005, indexing of 2% was applied to pensions earned on service prior to 1999. No ad hoc increases were applied.

Operating Expenditures

Table 1.10 shows Plan operating expenditures in thousands of dollars.

Administration Expenses

(in thousands of dollars)

	2005		2004	
	Budget	Actual	Budget	Actual
Administration costs	$2,620	$2,244	$2,825	$1,975
Custodial fees	128	131	165	128
Asset consultant fees	79	84	78	76
Investment management fees				
Greystone	928	937	790	843
Foyston	438	416	395	398
Brandes	749	724	588	681
Lincluden	289	276	274	260
Barclays	103	97	114	94
Northwater	22	10	-	20
Snyder	-	248	-	-
	$5,353	$5,167	$5,229	$4,475

Table 1.8

MEPP Comparative Statistics

Plan Membership Comparisons

	2005	2004
Active	11,656	11,143
Transitional Deferred	1,835	1,849
Deferred	1,968	1,730
Pensioners	3,803	3,498

Table 1.9

Retirement Comparisons

	2005	2004
Normal Retirement	81	60
Early Retirement	210	138
Postponed Retirement	10	14
Total Retirements	301	194

Table 1.10

MEPP Active Employers

Cities	7	0.9%
Other	31	4.0%
Regional Colleges	8	1.0%
Regional Libraries	8	1.0%
Rural Municipalities	296	38.3%
School Divisions & Boards	78	10.1%
Towns	144	18.7%
Villages	201	26.0%
Total Participants	773	100.0%

Table 1.11

MEPP Active Members

Cities	975	8.4%
Other	38	0.3%
Regional Colleges	379	3.3%
Regional Libraries	336	2.9%
Rural Municipalities	1,027	8.8%
School Divisions & Boards	7,416	63.6%
Towns	1,060	9.1%
Villages	425	3.6%
Total Participants	11,656	100.0%

Table 1.12

Active Employers

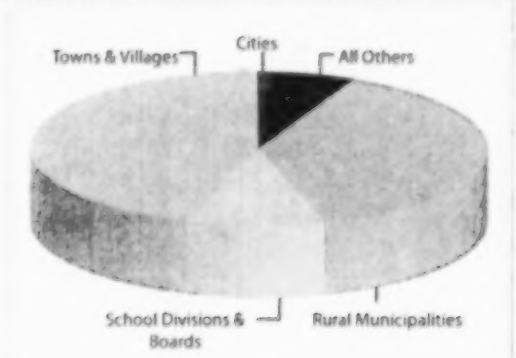


Figure 1.11

Active Members

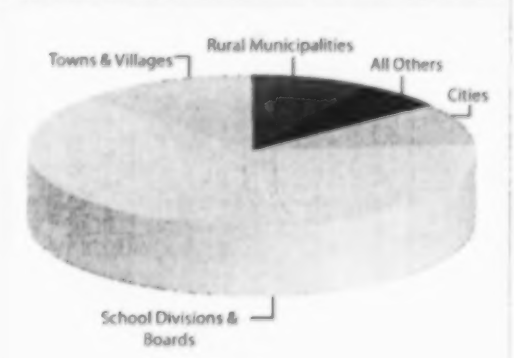


Figure 1.12

Management's Report

To the Members of the Legislative Assembly of Saskatchewan

Administration of the Plan is presently assigned to the Public Employees Benefits Agency of the Department of Finance. Management is responsible for financial administration, administration of funds and managing of assets.

The financial statements which follow have been prepared by management in conformity with Canadian generally accepted accounting principles. Management uses internal controls and exercises its best judgment in order that the financial statements fairly reflect the financial position of the Plan.

The Municipal Employees' Pension Commission reviews and approves the financial statements. In doing so, the Commission has had the opportunity to discuss the statements with management throughout the year.

The provision for annuity benefits and the accrued pension benefits are determined by an actuarial valuation. Actuarial valuation reports require best estimate assumptions about future events which require approval by management.

The financial statements have been audited by Meyers Norris Penny whose report follows.

Brian Smith
Assistant Deputy Minister
Public Employees Benefits Agency

A. Mackrill

Ann Mackrill
Director, Pension Programs
Public Employees Benefits Agency

K morgan

Kathy Morgan
Director, Financial Services
Public Employees Benefits Agency

Regina, Saskatchewan
March 1, 2006

Actuaries' Opinion

Eckler Partners Ltd. was retained by the Municipal Employees' Pension Commission (the Commission) to perform an actuarial valuation of the assets, the provision for annuity benefits and the accrued pension benefits of the Municipal Employees' Pension Plan (the Plan) on an accounting basis as at December 31, 2004. Eckler Partners Ltd. was further retained to extrapolate the results of this valuation to December 31, 2005.

This valuation and extrapolation were based on:

- Membership data provided by the Commission as at September 30, 2004;
- Information provided by the Commissin on retirements in the final quarter of 2004 and in 2005;
- Asset data, provided by the Commission as at December 31, 2005;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management and Eckler Partners Ltd. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are not unreasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

We have tested the data for reasonableness and consistency with prior valuations and in our opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. We also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. Our opinions have been given and our valuations and extrapolation have been performed in accordance with accepted actuarial practice.

John Corp

John Corp, FIA, FCIA
Eckler Partners Ltd.

March 1, 2006

MUNICIPAL EMPLOYEES' PENSION PLAN

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005

AUDITORS' REPORT

To the Members of the Legislative Assembly of Saskatchewan

We have audited the statement of net assets available for benefits, accrued pension benefits and surplus of the Municipal Employees' Pension Plan as at December 31, 2005 and the statements of changes in net assets available for benefits and changes in accrued pension benefits and provision for annuity benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets available for benefits of the Municipal Employees' Pension Plan as at December 31, 2005 and the changes in net assets available for benefits for the year then ended in accordance with Canadian generally accepted accounting principles.

Meyers Norris Penny LLP

Meyers Norris Penny
Chartered Accountants

Regina, Saskatchewan

March 1, 2006

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 1**
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS, ACCRUED PENSION BENEFITS AND SURPLUS

YEAR ENDED DECEMBER 31

(in thousands)

	2005			2004
	Defined Benefit	Retirement Annuities	Total	Total
ASSETS				
Investments (Note 3)				
Short term	$ 24,070	$ 725	$ 24,795	$ 17,964
Bonds	350,877	10,574	361,451	339,980
Equities	362,271	10,918	373,189	335,959
Pooled funds	430,846	12,985	443,831	395,378
Mortgages	581	18	599	628
Real estate	45,842	1,381	47,223	50,342
	1,214,487	36,601	1,251,088	1,140,251
Accounts receivable				
Employees' contributions	1,091	-	1,091	1,078
Employers' contributions	1,091	-	1,091	1,078
Other receivables	376	-	376	412
Accrued investment income	3,706	112	3,818	3,294
	6,264	112	6,376	5,862
Due from General Revenue Fund (Note 4)	233	7	240	1,448
Cash	664	20	684	552
Total assets	1,221,648	36,740	1,258,388	1,148,113
LIABILITIES				
Accounts payable	1,017	31	1,048	799
Provision for annuity benefits (Statement 3, Note 8)	-	34,798	34,798	36,996
Total liabilities	1,017	34,829	35,846	37,795
NET ASSETS AVAILABLE FOR BENEFITS	1,220,631	1,911	1,222,542	1,110,318
Accrued pension benefits (Statement 3, Note 7)	1,087,954	-	1,087,954	998,861
SURPLUS	$ 132,677	$ 1,911	$ 134,588	$ 111,457

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN — STATEMENT 2
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS

YEAR ENDED DECEMBER 31

(in thousands)

	2005			2004
	Defined Benefit	Retirement Annuities	Total	Total
INCREASE IN ASSETS				
Investment income				
Interest	$ 23,964	$ 758	$ 24,722	$ 20,832
Pooled funds	15,446	489	15,935	17,520
Dividends	6,713	212	6,925	6,081
Mortgages	26	1	27	55
Real estate	2,725	86	2,811	3,297
	48,874	1,546	50,420	47,785
Change in market value of investments	83,694	2,647	86,341	70,602
Contributions				
Employee contributions	16,596	-	16,596	15,945
Employer contributions	16,540	-	16,540	15,911
Reciprocal transfers in	178	-	178	401
Arrears contributions and interest	35	-	35	85
Inter-fund transfer	(156)	156	-	-
	33,193	156	33,349	32,342
Change in provision for annuity benefits (Statement 3, Note 8)	-	2,198	2,198	657
Total increase in assets	165,761	6,547	172,308	151,386
DECREASE IN ASSETS				
Transfers, refunds and benefit payments (Note 6)	21,078	-	21,078	13,980
Defined benefit payments	29,430	-	29,430	26,689
Annuities	-	4,409	4,409	4,486
Administration costs (Note 9)	2,256	72	2,328	2,051
Investment and custodial fees (Note 9)	2,752	87	2,839	2,424
Total decrease in assets	55,516	4,568	60,084	49,630
INCREASE IN NET ASSETS	110,245	1,979	112,224	101,756
NET ASSETS (DEFICIT) AVAILABLE FOR BENEFITS, BEGINNING OF YEAR	1,110,386	(68)	1,110,318	1,008,562
NET ASSETS AVAILABLE FOR BENEFITS, END OF YEAR	$1,220,631	$1,911	$1,222,542	$1,110,318

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN **STATEMENT 3**
STATEMENT OF CHANGES IN ACCRUED PENSION BENEFITS AND PROVISION FOR ANNUITY BENEFITS

YEAR ENDED DECEMBER 31

	(in thousands) 2005	2004
ACCRUED PENSION BENEFITS, BEGINNING OF YEAR	$ 998,861	$956,780
Increase in accrued pension benefits		
Interest on accrued benefits	64,843	62,811
Benefits accrued	47,887	60,152
Transfer-in	213	-
Change in assumptions	44,574	-
	157,517	122,963
Decrease in accrued pension benefits		
Transfers, refunds and defined benefits paid	50,508	40,669
Experience gains	17,760	5,520
Changes in indexing and mortality assumptions	-	33,890
Transfer to provision for annuities	156	803
	68,424	80,882
ACCRUED PENSION BENEFITS, END OF YEAR (Note 7)	$1,087,954	$998,861
PROVISION FOR ANNUITY BENEFITS, BEGINNING OF YEAR	$ 36,996	$ 37,653
Increase in provision for annuity benefits		
Interest on annuity benefits	2,092	2,125
New annuities purchased	156	803
Changes in mortality assumptions	-	678
Mortality experience losses	-	223
	2,248	3,829
Decrease in provision for annuity benefits		
Annuities paid	4,409	4,486
Changes in assumptions	33	-
Experience gain	4	-
	4,446	4,486
PROVISION FOR ANNUITY BENEFITS, END OF YEAR (Note 8)	$ 34,798	$ 36,996

(See accompanying notes to the financial statements)

MUNICIPAL EMPLOYEES' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2005

1. Description of the Municipal Employees' Pension Plan

General

The Municipal Employees' Pension Plan (the Plan) is comprised of components including defined benefits, money accumulation benefits and retirement annuities. The following description of the Plan is a summary only. For more complete information, reference should be made to *The Municipal Employees' Pension Act*.

The Municipal Employees' Pension Act (the Act) provides authority for the Plan. The Act directs that all allowances, payments and refunds under the Act shall be payable out of the Plan in the manner provided in the Act together with all benefits granted under a former Act. The Municipal Employees' Pension Commission is responsible for holding in trust and investing the monies of the Plan. The Municipal Employees' Pension Commission's composition and authority to administer the Plan are provided in Section 7 of the Act.

Defined Benefit Component

The Defined Benefit Component became effective July 1, 1973. This Defined Benefit Component is mandatory for permanent employees and optional for some non-permanent employees.

A. Funding Policy

Effective January 1, 1993, contributions are established at 5.4% of salary (7.3% for police officers and firefighters). Contributions prior to January 1, 1993 were established at 7% of earnings net of deemed Canada Pension Plan contributions. Contributions are matched by the employer.

B. Pensions

Employees receive a pension at age 65 (age 60 for police officers and firefighters), for each year and fractional year of contributory service in the Plan prior to retirement that is determined as:

For service earned before 1990 and service earned after 2000 but before 2006, the number of years of contributory service during these periods times the greater of:

a) 1.8% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (2% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

For service earned after 1989 but before 2001 and service earned after 2005, the number of years of contributory service during these periods times the greater of:

a) 1.5% times the average salary for the highest three annualized years of the member's total pensionable service in the Plan (1.7% for police officers and firefighters); or

b) i) 1.3% of that portion of the member's average salary not exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan; and

ii) 2% of that portion of the member's average salary exceeding the average yearly maximum pensionable earnings under the Canada Pension Plan.

C. Retirement

Normal retirement is at age 65 for general members and age 60 for police officers and firefighters. Members may retire earlier under certain conditions.

The Plan also provides benefits in the event of termination of employment, death or disability.

D. Surplus

Any surpluses arising in the Plan can be utilized at the discretion of the Commission.

Money Accumulation Component

The Money Accumulation Component consists of members who made contributions to the Money Accumulation Component in effect prior to July 1, 1973. Members may retire and purchase an annuity at age 65. Members may retire earlier under certain conditions. Upon retirement a member can purchase an annuity from either the Plan or a private insurer based on employee and employer contributions together with the interest thereon. The annuity purchased from the Plan can be indexed or not. In the event of death prior to retirement, the member's spouse may receive a life annuity or elect to receive a lump sum payment of employee and employer contributions plus interest. If the member's beneficiary is other than the spouse, a lump sum payment of employee and employer contributions plus interest is made.

In addition, the accounts set up to record mandatory contributions made to the Plan prior to July 1, 1973, may also contain:

- voluntary employee and/or employer contributions made either before or after July 1, 1973 and until December 31, 1992;

- any excess employee funds transferred from the Defined Benefit Component pursuant to subsection 20(4) of *The Municipal Employees' Pension Act* up until December 31, 2000.

The Money Accumulation Component is included in the assets of the Defined Benefit Component and totals $14,101,485 (2004 - $13,336,278).

Retirement Annuities Component

If a member elects to purchase an annuity through the Commission, an annuity contract is issued based on the member's balance, current interest rates and annuity tables.

The present value of future annuities is reflected as a liability of the Plan.

Supplementary Benefits

In accordance with the Act, the Commission may grant supplementary benefits to those members receiving pensions and annuities to compensate them for lost purchasing power. The Commission may grant the supplementary benefits as long as the solvency of the entire Plan is not impaired.

Those annuitants who purchased indexed annuities are indexed using the Saskatchewan Consumer Price Index each January. The Commission has guaranteed indexation on pensions with service accrued before 1999 equal to the lesser of the increase in the Saskatchewan Consumer Price Index during the previous calendar year or an annual rate of 2%.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

Basis of Presentation

The Plan has disclosed financial results for its Defined Benefit and Retirement Annuities components separately. The Plan maintains a single investment portfolio and assets were allocated to the retirement annuities component at January 1, 2002 based upon the provision for annuity benefits as at that date. Investment income and operating expenses have been allocated between the two components based upon the market value of assets within each component.

Valuation of Investments

Investments in bonds and equities are recorded at market values which are determined by reference to closing year end sale prices from recognized security dealers or, in the absence of recorded sales, by reference to closing year end bid and ask prices.

Investment transactions are recorded on the trade date. Interest income is accrued monthly and dividend income is recognized on the record date.

Short-term investments are valued at cost, which approximates market value.

Pooled funds are valued based on the quoted market price of the underlying investments, normally the current bid price.

Real estate is valued at market value as estimated by independent appraisals.

Mortgages are valued at their net present value by discounting cash flows to current market rates of return.

Foreign Currency

Transactions conducted in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the trade date. Gains and losses arising on translation are included in the current period change in market value of the investments. Monetary items denominated in foreign currency are translated at the exchange rate in effect at year-end.

Provision for Annuity Benefits

Provision for annuity benefits represents the present value of the retirement annuities underwritten by the Plan and is determined pursuant to an actuarial valuation or extrapolation. Any change in the

liability pursuant to the valuation or extrapolation is recognized as a revenue or expense item in that year's operations.

3. Investments

The investment objectives of the Plan are to ensure the Plan has sufficient assets to meet future pension obligations and to generate sufficient cash flow to meet pension payments. Due to the long-term horizon of the Plan's liabilities, the Plan takes a long-term investment perspective. The strategy employed to achieve these objectives is to use investment managers to invest cash flows from contributions, maturing debentures, and investment returns into assets such as Canadian equities, pooled funds, money market securities and bonds.

a) Interest Rate Risk

Interest rate risk refers to the adverse consequences of interest rate changes on the Plan's cash flows, financial position and income. This risk arises from differences in the timing and amount of cash flows related to the Plan's assets and liabilities. Interest rate risk is managed by investing in fixed income investments with varying duration.

The value of the Plan's assets is affected by short-term changes in nominal interest rates and equity markets.

b) Credit Risk

Credit risk arises from the potential for a counterparty to fail or for a counterparty to default on its contractual obligations to the Plan. The Plan limits the credit risk by dealing with counterparties that are considered to be high quality. The credit ratings used to describe securities below are based on a recognized credit rating service.

c) Foreign Currency Risk

Foreign currency exposure arises from the Plan holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the value of investments. The Plan manages its foreign currency risk by limiting the investment in foreign funds.

d) Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. The Board's policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Objectives.

e) Real Estate Risk

Risk in the real estate portfolio is managed through diversification across real estate types and locations. Adverse impacts in any one segment of the market or geographic location are minimized by having holdings diversified across property type, geographic location and investment size.

Short Term Investments

These investments are comprised of treasury bills, notes and commercial paper. Short-term investments held as of December 31, 2005 had effective interest rates of 1.9% to 4.1% (2004 - 2.3% to 2.7%) and an average term to maturity of 111 days (2004 - 84 days). The Plan's investment policy states that investments must meet a minimum investment standard of "R-1" or equivalent rating as rated by a recognized bond rating service. Other than the Government of Canada, no single issuer represents more than 13.7% (2004 – 24.3%) of the total Plan's short-term investments.

Bonds

The Plan's investment policy states that bonds must meet a minimum quality standard of BBB as rated by a recognized bond rating service. In addition, not more than 15% of its total bond market value may be invested in BBB rated bonds. As at December 31, 2005, the Plan held 4.4% (2004 – 5.4%) of its portfolio in BBB bonds.

The Plan's investment in bonds are described below.

	2005 (in thousands)						**2004** (in thousands)		
Years to Maturity	Federal	Provincial	Corporate	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market	Total Market Value	Coupon Rate	Weighted Yield to Maturity at Market
Under 5	$120,569	$13,288	$48,287	$182,144	2.75-9.00%	4.8%	$164,327	2.62-9.00%	4.2%
5 to 10	37,557	16,142	28,167	81,866	3.75-11.20%	4.0%	96,890	3.75-11.20%	5.2%
Over 10	34,579	43,012	19,850	97,441	4.00-9.90%	5.0%	78,763	4.93-9.90%	5.4%
Market Value	$192,705	$72,442	$96,304	$361,451			$339,980		

Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

Equities

The Plan's investment policy allows no one holding to represent more than 10% of the market value of the related portfolio and no one holding to represent more than 10% of the common stock in any corporation.

The investment policy allows between 26% and 40% of the fund to be invested in foreign equities, including those held in pooled funds and synthetic funds. As at December 31, 2005 the Plan held 7.9% (2004 – 8.3%) in foreign equities and 27.7% (2004 – 17.1%) in pooled foreign equity funds excluding synthetic funds.

All foreign equities are denominated in Canadian dollars.

The Plan's equities include common shares that have no fixed maturity date and are generally not exposed to interest rate risks. Dividends are generally declared on a quarterly basis. The average effective dividend rate is 2.0% (2004 – 1.9%).

Pooled Funds

For liquidity reasons, the investment policy limits pooled fund holdings to not more than 10% of the market value of the individual pooled fund. Exceptions to the 10% limit are allowed if provision has been made to transfer securities in kind out of the pooled fund when assets are transferred out of the pooled fund.

The Plan's pooled funds are comprised of:

Pooled Fund	Units Held (in thousands) 2005	2004	% of Total Units Outstanding 2005	2004	Market Value (in thousands) 2005	2004
US Equity						
Barclays Hedged Pension US Equity Index Fund	11,952	-	19.66%	-	$122,498	-
Global Equity						
Greystone EAFE Plus Fund	10,345	9,287	8.21%	8.21%	104,526	84,977
Brandes Canada International Equity Unit Trust	7,442	6,821	12.69%	12.54%	119,397	110,188
Fixed Income Funds						
Barclays Universe Bond Index Class A Fund	5,189	5,192	2.71%	2.42%	97,410	91,540
Other Canadian						
Newcastle Derivatives Mid Cap Fund	-	458	-	18.12%	-	52,247
Barclays Hedge Synthetic US Fund	-	1,909	-	1.93%	-	56,426
					$443,831	$395,378

During 2005, the units held in the Newcastle Derivatives Mid Cap Fund were redeemed and the proceeds invested in direct holdings of US equities. The units held in the Barclays Hedge Synthetic US Fund were redeemed and the proceeds invested in Barclays Hedged Pension US Equity Index Fund.

Mortgages

All mortgages are secured by Canadian commercial properties and have effective and stated interest rates of 5.5% (2004 - 5.5%) with an average remaining term to maturity of 2.7 years (2004 – 3.7 years). Principal and interest are receivable on a monthly basis.

Real Estate

Investments in real estate consist of Canadian commercial property.

Included in the totals for real estate are holdings of SaskPen Properties Ltd. totaling $2,148,668 (2004 - $1,810,525). SaskPen Properties Ltd. is a real estate corporation beneficially owned by Crown managed pension funds in the Province of Saskatchewan. Investment income including the current period change in the market value of investments from this holding totaled $472,667 (2004 - $215,683).

4. Due from General Revenue Fund

The Municipal Employees' Pension Plan's bank account is included in the Consolidated Offset Bank Concentration arrangement for the Government of Saskatchewan.

Earned interest is calculated and paid by the General Revenue Fund on a quarterly basis using the Government's thirty day borrowing rate and the Municipal Employees' Pension Plan's average daily bank account balance. The Government's thirty-day borrowing rate for 2005 was 2.6% (2004 - 2.2%).

5. Earnings Allocation to Members

Part of the change in market values of investments is allocated annually to members of the Plan. The maximum market value change deferred to future years is 3% of the total market value of investments at December 31 of each year. Unallocated changes are recognized equally in each of the three subsequent years. At December 31, 2005 the increase in market value not yet allocated to members is $37,532,658 (2004 – $34,207,508).

Interest is allocated annually to the individual member's account balances in accordance with the provisions of the governing legislation. In 2005 an interest rate of 10.7% (2004 – 10.2%) was approved by the Commission for the Money Accumulation Component and 10.7% (2004 – 10.2%) for the Defined Benefit Component. The interest allocated is investment income, the current year's allocation of the change in market values of the investments, less administration, custodian and investment managers' fees.

6. Transfers, Refunds and Benefit Payments

	(in thousands)	
	2005	**2004**
Transfers to other retirement plans	$ 136	$ -
Transfer to other retirement vehicles	13,601	7,524
Lump sum payments to estates	1,381	2,149
Payments in lieu of annuities	743	555
Withdrawals with interest	5,217	3,752
	$21,078	$13,980

7. Accrued Pension Benefits

The actuarial present value of pension benefits for the Defined Benefit Component of the Plan was determined using the projected benefit method prorated on service and the administrator's best estimate of future investment performance, salary escalation and future pension indexing.

An actuarial valuation was performed as at September 30, 2004 by Eckler Partners Ltd. and they extrapolated the results of that valuation to December 31, 2004 and December 31, 2005.

The pension liability is based on a number of assumptions about future events including interest rates, rate of salary increases, inflation, mortality, retirement rates and termination rates. The assumptions used in determining the actuarial present value of pension benefits for the Defined Benefit Component of the Plan were:

	2005	**2004**
Interest rate	6.0%	6.5%
Salary escalation rate	3.5%	4%
Inflation	2.5%	3%
Indexation of pensions	50% of inflation for post 1998 benefits	50% of inflation for post 1998 benefits
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

Actual rates may vary significantly from the long-term assumptions used. The following illustrates the effect of changing certain assumptions from the assumed escalation rates of salary 3.5%, interest rate 6.0% and pension indexing 1.25%. The changes in assumptions are independent of one another.

	Effect on Accrued Pension Benefits Liability					
	Salary		Interest Rate		Pension Indexing (post 1998)	
Assumptions	2.5%	4.5%	5.0%	7.0%	0.25%	2.25%
(Decrease) Increase	(3.4%)	3.9%	16.9%	(12.9%)	(3.2%)	3.9%

The extrapolation to December 31, 2005 determined an experience gain of $17,760,000. This gain was due primarily to retirements being lower than assumed.

8. Provision for Annuity Benefits

The provision for annuity benefits was determined using the administrator's best estimate of future investment performance and future pension indexing. Eckler Partners Ltd. performed an actuarial valuation of annuities as at September 30, 2004 and extrapolated the results of that valuation to December 31, 2004 and December 31, 2005.

The actuarial valuation was based on a number of assumptions about future events including interest rates, pension indexing (for members who elected indexed annuities) and mortality as follows:

	2005	2004
Interest rate	6.0%	6.0%
Indexation of pensions	2.5%	3.0%
Mortality	UP94 (projected to 2015)	UP94 (projected to 2015)

The actual rates may vary significantly from the assumptions used. The following illustrates the effect of changing certain assumptions from the assumed interest rate of 6.0% and pension indexing of 2.5%. The changes in assumptions are independent of one another.

	Effect on Provision for Annuity Benefits			
	Interest Rate		Pension Indexing	
Assumptions	5.0%	7.0%	1.5%	3.5%
(Decrease) Increase	6.9%	N/A	(0.2%)	0.2%

In future, increases on non-indexed pensions will be granted to the extent that smoothed investment earnings exceed 6.0%. While an increase in the interest rate above 6.0% would normally reduce the liability, in this case there would be a corresponding increase in the amount of pension and the net affect on the liability would be zero. Excess interest increases for non-indexed annuities in any year will not be greater then the increase in the Consumer Price Index for the previous year.

The cash outflow to pay the required annuity obligation is calculated using the above assumptions. The cash outflows in the next 5 years would be $19.4 million, in the next 10 years $34.1 million and in the next 30 years $54.1 million.

9. Administration Expenses

The annual operating expenditures associated with the Plan's administration are paid to the Public Employees Benefits Agency Revolving Fund except for custodial fees and investment management fees, which are paid directly.

	(in thousands of dollars)			
	Budget	2005 Actual	Budget	2004 Actual
	(unaudited)		(unaudited)	
Administration costs	$2,699	$2,328	$2,903	$2,051
Custodial fees	128	131	165	128
Investment management fees	2,526	2,708	2,161	2,296
	$5,353	$5,167	$5,229	$4,475

10. Related Party Transactions

All Government of Saskatchewan agencies such as departments, corporations, boards and commissions are related since all are controlled by the Government. Costs charged by the Public Employees Benefits Agency Revolving Fund in administering the Plan are reflected in these financial statements.

The Plan holds $4,290,342 (2004 - $3,187,760) in Province of Saskatchewan Bonds. Investment income on these bonds, including the current period change in the market value of investments, was $596,072 (2004 - $377,199).

Other related party transactions are disclosed separately in these financial statements.

Account balances resulting from the above transactions are included in the statement of net assets available for benefits and are settled at agreed upon exchange rates.

11. Investment Performance

The investment managers make day-to-day decisions on whether to buy or sell investments in order to achieve the long-term performance objectives set by the Commission. The Commission reviews the investment performance of the plan in terms of the performance of the benchmark portfolio over 4 year rolling periods. The primary long-term investment performance objective for the entire portfolio is to outperform a benchmark portfolio.

The following is a summary of the Plan's investment performance:

	2005	Rolling Four Year Average Annual Return
Plan's actual rate of return (a)	12.1%	8.9%
Target rate of return (b)	10.6%	6.9%

(a) The annual returns are before deducting investment expenses.
(b) The Plan's target rate of return for its investment portfolio (return on the benchmark portfolio) has been determined using the actual returns of the market indexes such as the Standard & Poors TSX CPMS Cap 10 Index , Standard & Poors 500 US Stock Index and the Scotia Capital Universe Bond Index.

12. Fair Value

For financial instruments including short-term investments, accounts receivable, and accounts payable, cost approximates fair value due to their immediate or short-term maturity.

The fair values of investments are considered to be market value, the calculation of which is detailed in Note 2. The fair value of the provision for annuity benefits, as well as the accrued pension benefits, cannot be readily determined; information about these liabilities is provided in Notes 7 and 8.

13. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's financial statement presentation.

APPENDIX 'A'

DESCRIPTION OF MARKET INDICIES

S&P/TSX Composite
Effective May 1, 2002, the TSE 300 index is now known as the S&P/TSX Composite Index. The index comprises approximately 71 percent of market capitalization for Canadian-based, Toronto Stock Exchange listed companies. It is calculated on a float market capitalization and is the broadest Canadian equity index available. The index also serves as the premier benchmark for Canadian pension funds and mutual market funds.

S&P/TSX CPMS Cap 10
S&P/TSX CPMS Cap 10 Index is a capitalization-weighted index comprised of all of the stocks included in the S&P/TSX Composite Index. The float capitalization weight of any stock that exceeds 10% of the S&P/TSX Composite Index is capped at 10% of the CPMS Cap 10 Index on a daily basis.

S&P 500
Standard & Poor's 500 Composite Stock Index consists of the largest 500 companies in the United States chosen for market size, liquidity and industry group representation. It is a market-value weighted index, with each stock's weight in the Index proportionate to its market value. For the purposes of this report, the S&P 500 Index returns are converted from U.S. dollars into Canadian dollars, and therefore, reflect currency gains or losses.

MSCI EAFE
Morgan Stanley Capital International Europe, Australia and Far East Index is a widely recognized benchmark of non-U.S. stock markets. It is an unmanaged index composed of a sample of companies representative of the market structure of 21 European and Pacific Basin Countries and includes reinvestment of all dividends. This index aims to capture 85% of the free float adjusted market capitalization in each industry group in each country. Individuals cannot invest directly in an index. The index is computed on a float-based capitalization.

SC UBI
Scotia Capital Markets Universe Bond Index covers all marketable Canadian bonds with term to maturity of more than one year. The Universe contains over 900 marketable Canadian bonds with an average term of 9 years and an average duration of 5.5 years. The purpose of the index is to reflect the performance of the broad "Canadian Bond Market" in a similar manner to the S&P/TSX Composite Index.

IPDCPI
The ICREIM/IPD Canadian Property Index is published by Investment Property Databank Ltd., under contract with the Canadian Institute of Real Estate Investment Managers. The index replaces the Russell Canadian Property Index, which was discontinued at the end of 2002. The IPD Index measures total returns on a diversified pool of properties. IPD compiles property level information from pension funds, life insurance companies and real estate managers on a quarterly basis. The Index contains over 1,700 properties and is estimated to represent approximately 50% of institutional holdings and publicly listed vehicles.

91-Day T-Bills
Canada Treasury Bills represent the highest quality short-term instruments available. The index is constructed by selling and repurchasing Government of Canada T-bills with an average term to maturity of 91 days. The Scotia Capital 91-Day Treasury Bill Index is calculated and marked to market daily.

CPI
Consumer Price Index is used to gauge Canada's inflation rate. The series used is the all items, not seasonally adjusted, 1992 base.

Russell 2500
The Russell 2500 Index offers investors access to the small to mid-cap segment of the U.S. equity universe, commonly referred to as "smid" cap. The Russell 2500 is constructed to provide a comprehensive and unbiased barometer for the small to mid-cap segment and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small to mid-cap opportunity set.